

## Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-03

INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-03 LAB-06 SIL-01 OMB-01 DODE-00 PM-07 H-03 L-03

NSC-07 PA-04 PRS-01 SS-20 USIA-15 DRC-01 /161 W

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R 262349Z AUG 74

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 3487

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E.O. 11652: N/A

TAGS: ELAB, MX

SUBJ: PROBABLE WAGE SETTLEMENT

REF: MEXICO 6960; 7024.

1. SUMMARY. THE CURRENT MOST PRESSING AND PUBLIC ECONOMIC SUBJECT IS THE APPROPRIATE WAGE INCREASE TO GRANT TO THE LABOR UNIONS. AN AGREEMENT DOES NOT HAVE TO BE REACHED UNTIL SEPTEMBER 20, AT WHICH TIME UNIONS WILL BE PERMITTED BY LAW TO STRIKE. ROLE OF GOVERNMENT IS INDIRECT EXCEPT AS INVOLVES THE CIVIL SERVICE, BUT WILL PROBABLY BE DECISIVE. LEVEL OF INCREASE WILL HAVE MAJOR IMPACT ON WHAT HAPPENS TO PRICES OVER THE NEXT SIX MONTHS. END SUMMARY

2. VIRTUALLY ALL LABOR UNIONS HAVE ISSUED DEMANDS FOR 35 PERCENT WAGE INCREASE. AGREEMENTS WITH MANAGEMENT HAVE TO BE REACHED BY SEPTEMBER 20, AT WHICH TIME UNIONS WILL BE OTHERWISE PERMITTED TO STRIKE.

3. SINCE FILING OF WAGE DEMANDS, A MAJOR PUBLIC DEBATE HAS BEEN ENGAGED AND IT HAS RECEIVED DAILY PRESS COVERAGE. LABOR CONTENDS THE COST OF LIVING FOR THEM HAS RISEN MORE

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THAN 35 PERCENT SINCE LAST MAJOR WAGE SETTLEMENT IN SEPTEMBER

1973. OFFICIAL CONSUMER PRICE INDEX, COMPILED BY BANK OF MEXICO  
ROSE SLIGHTLY LESS THAN 20 PERCENT FROM SEPTEMBER TO JULY.

4. BUSINESSMEN WE HAVE SPOKEN WITH SAY THAT LARGEST INCREASE  
THEIR COMPANIES COULD ABSORB WITHOUT INCREASING PRICES WOULD  
BE 12 TO 15 PERCENT. THEY, HOWEVER, BELIEVE THE FINAL SETTLE-  
MENT WILL BE ABOUT 20 PERCENT. SEVERAL BUSINESSMEN HAVE SAID  
THAT SUCH AN INCREASE COULD HAVE A SERIOUS IMPACT ON PROFITS AND  
PERHAPS THEIR EXISTENCE UNLESS GOM RAISES THE FIXED PRICES FOR  
MANY OF THEIR PRODUCTS. PUBLICLY, BUSINESS IS CITING THE IN-  
FLATIONARY IMPACT OF A 35 PERCENT INCREASE, OTHER INCREASED  
COSTS THEY ARE ASSUMING SUCH AS SOCIAL SECURITY CHARGES, AND  
THE IMPACT ON PROFITS IN RELATION TO FUNDS AVAILABLE FOR  
REINVESTMENT.

5. GOM OFFICIALS WE HAVE SPOKEN WITH INDICATE THAT GOVERNMENT  
HAS NOT YET REACHED ANY DECISION. PRESIDENT WILL PROBABLY MAKE  
A STATEMENT ON CIVIL SERVICE WAGES IN HIS SEPTEMBER 1 INFORME',  
BUT HIS INTENTIONS RE WAGES IN PRIVATE SECTOR ARE NOT YET KNOWN,  
AND MAY NOT YET BE FORMULATED. ONE SENIOR GOM OFFICIAL TOLD  
US THAT DECISION WOULD BE REACHED ON POLITICAL RATHER THAN  
ECONOMIC GROUNDS, INDICATING THAT FINAL INCREASES WILL PROBABLY  
PUSH UP PRICES OR AT LEAST RESULT IN CONSIDERABLE PRESSURE  
FROM BUSINESS TO INCREASE PRICES. ACCORDING TO BANK OF MEXICO, AN  
INCREASE OF 15 TO 20 PERCENT COULD BE ABSORBED WITHOUT A  
SIGNIFICANT IMPACT ON MEXICO'S INTERNATIONAL COMPETITIVE  
POSITION, THOUGH SUCH AN INCREASE COULD HAVE A BAD PSYCHOLOGICAL  
IMPACT ON CAPITAL MARKETS WHERE MEXICO HAS TO BORROW, AND  
POSSIBLY RESULT IN SOME SHORT-TERM CAPITAL OUTFLOWS.  
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## Message Attributes

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